D.H.Baldwin Company Annual Report

FOR THE 106TH YEAR ENDING DECEMBER 31, 1968

D.H. Baldwin Company Annual Report 1968

Contents | Page

Front Cover: The design represents Baldwin's involvement in three inter-related businesses—Music, Finance and Electronics. Together they add up to results for the year 1968 reported herein.

Financial Highlights

D. H. BALDWIN COMPANY AND SUBSIDIARIES

	1968	1967	% of Change
Net sales	$61,441,654	$58,734,489	4.6
Net income for year	3,442,973	2,209,989	55.8
Per common share	3.00	1.96	53.1
Dividends paid on common stock	1,378,400	1,355,717	1.7
Per common share	1.20	1.20	—

To Our Shareholders:

In 1968, your Company achieved the highest sales and earnings in its history. Earnings increased from $1.96 per share in 1967 to $3.00 per share in 1968, an increase of 56 per cent. However, to appreciate its inherent strength, you should understand the nature of the growth that has occurred during the past year. Its details and their financial significance appear elsewhere in this report. Let me here give its genesis.

Implicit in the Company's operations during the past decades have been our interests in the finance business and in the electronics business. Each has developed logically from our musical instrument business; our finance from the financing of the sales of musical instruments; and our electronics from our technical knowledge and development of the electronic organ. These interests have grown, particularly, during the past year. What was originally implicit has now become explicit in three distinct aspects of our business; musical instruments, electronics, and finance. Our musical instrument business is carried on by the Baldwin Piano & Organ Company and The Fred Gretsch Company, Inc.; our electronics business by Baldwin Electronics, Inc., and our affiliate, Siliconix incorporated; and our finance business by our Finance Department and, most recently, by Baldwin-Central, Inc. The latter is a one-bank holding company formed in June, 1968 to hold the shares of Central Bank and Trust Company of Denver — acquired by cash tender offer to its shareholders — and, subsequently, to hold the shares of Empire Savings, Building and Loan Association acquired in November, 1968.

Thus, our growth can be likened to that of a tree or a plant branching out from a common stem. We have broadened our roots to provide a wider base for support of our activities. We have not branched out to acquire companies that are foreign to our purpose of integrated growth based on common knowledge and experience. We are not pursuing a policy of conglomerated growth, which is corporate fashion these days. In the electronics business and in the field of finance, we are pursuing sound policies of development appropriate to the demands of each, and independent one of the other. The Denver area, for example, is one of growth and we expect to share in it. And, as always, we're building on the solid foundation offered by our strong position in the musical instrument field.

During the year, A. J. Schoenberger, our Senior Vice President, retired after fifty years of continuous effective and devoted service to the company as Secretary, Treasurer, and finally Vice President.

Prospects for 1969 are good. We will continue to report to you significant developments and changes as they occur.

Respectfully,

Lucien Wulsin
President

March 17, 1969

Financial Review

SALES: During 1968, the Company continued its sales growth. Net sales in 1968 amounted to $61,442,000, compared with $58,734,000 in 1967, a growth of 4.6 per cent. In the category of pianos, organs, guitars, drums, amplifiers, and other musical instruments, sales of our dealers and stores increased $3,618,000 in 1968 as compared to 1967, an increase of 8.1 per cent. Keyboard instruments showed a better performance than did guitars and amplifiers, where interest continues slack.

In our electronic business, sales increased from $5,358,000 in 1967, to $10,316,000 in 1968, a growth of 92.5 per cent (not including our proportionate share of sales of Siliconix). Our product mix approximates 1967.

In reporting sales, we do not include gross receipts from our Finance Department nor from Central Bank and Trust Company and Empire.

EARNINGS: In reporting our earnings of $3,443,000 in 1968, compared with $2,210,000 in 1967, we have continued accounting practices of prior years. These figures include earnings from sales and financing of musical instruments and sales of electronic items. They also include Baldwin's share of Siliconix earnings and net earnings of Baldwin-Central, Inc.; the latter being net earnings of Central Bank and Trust Company from July 1, 1968, and Empire Savings, Building and Loan Association from November 1, 1968, net of interest and taxes.

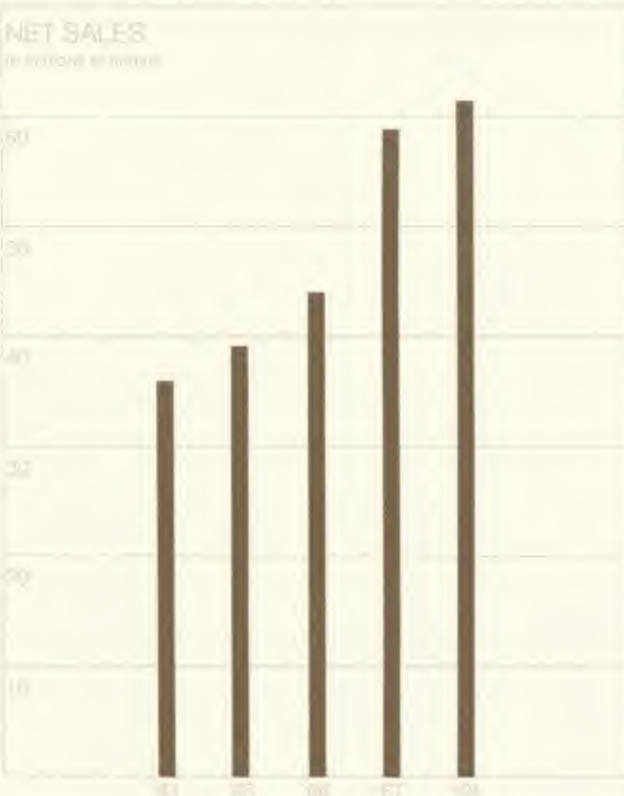
However, with the appearance of Central Bank and Empire and the reporting of Siliconix earnings, we have shown the consolidated net effect of their earnings to D. H. Baldwin Company under the caption of "Increase in Equity of Unconsolidated Subsidiaries" in the Statement of Consolidated Income and Earnings Reinvested in the Business. In this Statement, it is clear that our earnings from sales of musical instruments and electronic items did not increase in 1968. While we have enjoyed increased earnings in our electronic business, we have a decline in earnings in our musical instrument business due in large part to an increase in our costs of manufacturing. We have increased a substantial number of our piano and organ prices at the end of 1968 to alleviate this trend.

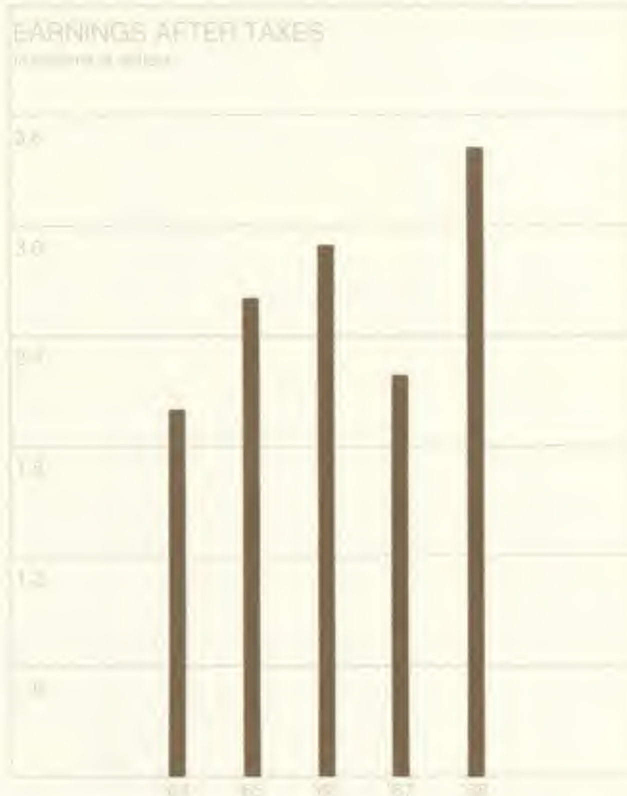
BALANCE SHEET: In our Balance Sheet as of December 31, 1968, with comparative 1967 figures, we have only shown the net effect after taxes, and interest of our equities in Central Bank, Empire Savings, and Siliconix. There is no attempt to consolidate all assets and all liabilities of the parent and all of its subsidiaries and affiliates. In this regard, reference should be made to Notes to Consolidated Financial Statements and Accounting and Financial Practices.

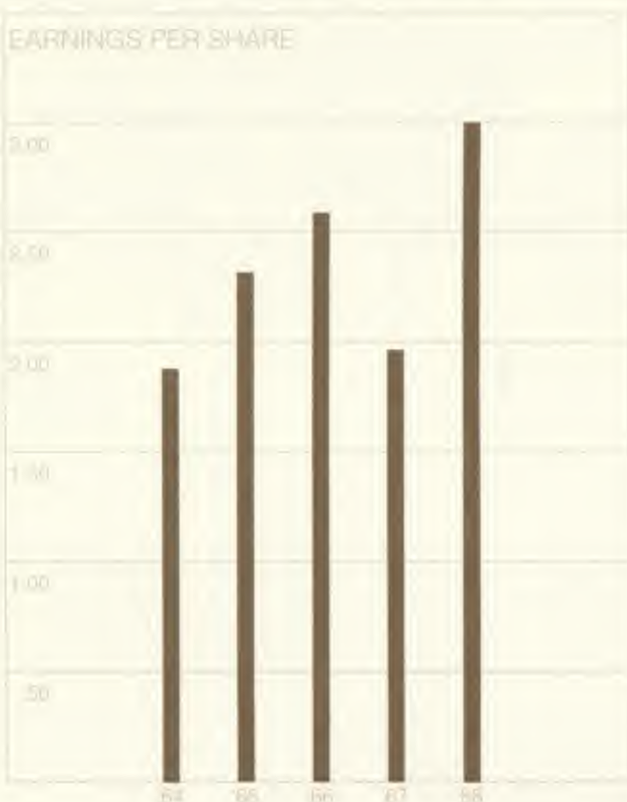
With respect only to D. H. Baldwin Company and Consolidated Subsidiaries, total current assets on December 31, 1968, amounted to $55,060,000; total current liabilities $38,721,000, a ratio of 1.4 to 1. During the year, the stockholders' equity increased from $25,085,000 to $27,749,000. This results in a book value as of December 31, 1968 of $23.92 a share. Earnings of $2,047,000 were reinvested in the business.

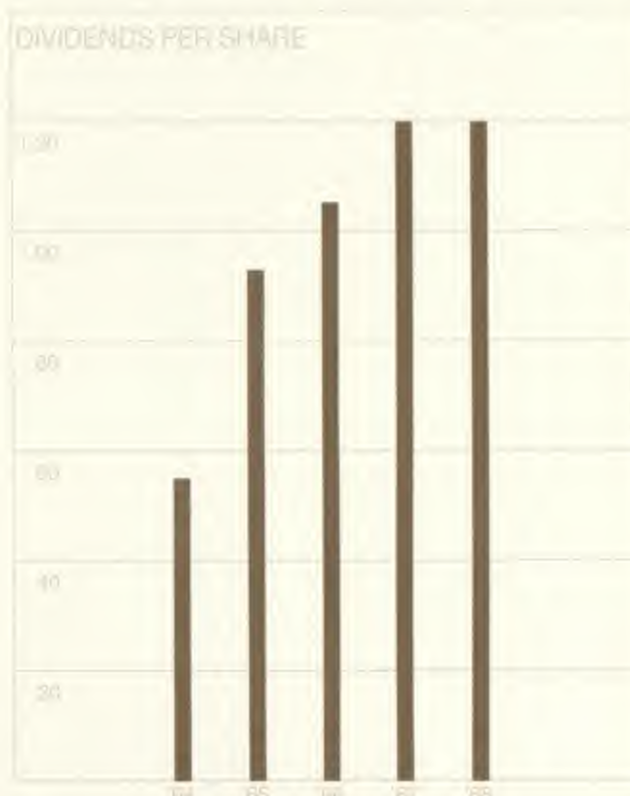
DIVIDENDS: The Company maintained its quarterly dividend of 30 cents a share. In April, 1968, the Company issued to its shareholders rights to subscribe to shares of Siliconix incorporated —one right for each share of Baldwin stock. This resulted in a distribution of value, determined to be 27 cents per Siliconix right.

During 1968, Baldwin entered into a joint venture agreement with Electronic Engineering Company, our associate in founding Siliconix incorporated. Under this agreement, Baldwin this year for the first time, reports its pro rata share of Siliconix earnings. As of December 31, 1968, Baldwin owned 29.3 per cent of Siliconix's outstanding and issued common shares.


NET SALES
60
50
40
30
20
10
'64
'65
'66
'67
'68


EARNINGS AFTER TAXES
3.6
3.0
2.4
1.8
1.2
.6
'64
'65
'66
'67
'68


EARNINGS PER SHARE
3.00
2.50
2.00
1.50
1.00
.50
'64
'65
'66
'67
'68


DIVIDENDS PER SHARE
1.20
1.00
.80
.60
.40
.20
'64
'65
'66
'67
'68

Ten Year Comparative Statement of Operations

D. H. BALDWIN COMPANY AND SUBSIDIARIES

In thousands of dollars	1968	1967	1966
Net Sales — Musical Instruments	$51,126	$53,376*	$41,498
Net Sales — Electronics	10,316	5,358	2,707
	61,442	58,734	44,205
Net income for year	3,443	2,210	2,904
Per common share**	3.00	1.96	2.58
Cash dividends paid on common stock	1,378	1,356	1,181
Per common share**	1.20	1.20	1.05
Annual earnings reinvested in the business	2,047	823	1,713
Stockholders' Equity	27,749	25,085	24,007
Book value per common share**	23.92	22.02	21.29

*Includes the sale, on December 31, 1967, of inventory to the D. H. Baldwin Trust, amounting to $8,703,001.

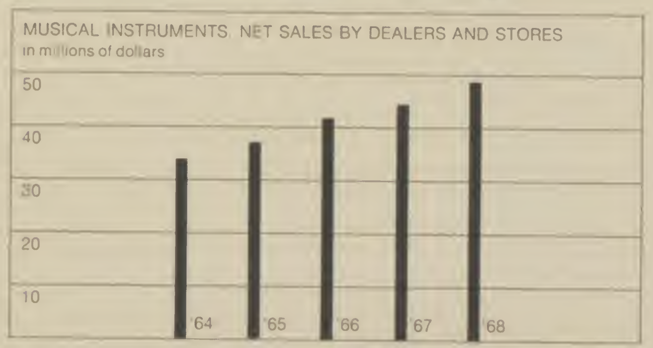
**Adjusted for stock dividends and splits, expressed in dollars.

1965	1964	1963	1962	1961	1960	1959
$36,746	$33,702	$32,066	$32,758	$31,645	$31,427	$30,836
2,490	2,565	1,904	1,028	1,669	2,256	2,975
39,236	36,267	33,970	33,786	33,314	33,683	33,811
2,621	2,087	1,343	1,241	1,004	1,511	1,461
2.33	1.88	1.21	1.12	.90	1.36	1.32
1,032	606	551	482	413	413	413
.92½	.55	.50	.43¾	.37½	.37½	.37½
1,579	1,471	783	749	580	1,089	1,038
22,416	20,659	19,188	18,405	17,656	17,076	15,987
19.90	18.59	17.26	16.55	15.87	15.35	14.36

The Baldwin Electropiano is a highly refined instrument for teaching, in a flexible, yet simple laboratory system. Above right: The sisters of Sacred Heart College in Belmont, N.C. receive indoctrination at the site of the first commercial laboratory installation. Below right: A student learns the musicianship of playing the piano, since the Baldwin Electropiano has true piano action, and piano response.

Musical Instruments

The volume of Baldwin's musical instrument business increased 8.1% in 1968 over 1967. In all categories of instruments, including those marketed by our subsidiary, The Fred Gretsch Company, Inc., the Baldwin line continued to be the most comprehensive in the industry.



Although birth rates declined during the '50's and '60's, the number of amateur musicians in the United States has been increasing at a dramatic rate. And in the decade ahead, the under-25-year-old population will be increasing substantially. These two factors point to opportunities for growth for Baldwin musical instruments. A significant indication of our optimistic sales outlook is the 33% increase in our field sales force during the past year and a half. In the same period, a 10% increase has been achieved in the number of retail outlets selling Baldwin pianos and organs. The establishment of a new Company-owned retail store in Atlanta, the relocation of our Chicago store and the renovation of our San Francisco store further strengthened our marketing position.

Electropiano Laboratory

During 1968, Baldwin's Education Department completed preparation for marketing the Electropiano Laboratory, and launched an aggressive sales program. The first unit was installed at Sacred Heart College in Belmont, North Carolina.

Advertising to music educators was initiated and two travelling exhibits demonstrated the Electropiano in 31 cities. A special showing was arranged for 300 music department heads and administrators at the convention of The National Association of Schools of Music. At Baldwin headquarters, new facilities were under construction to house pilot laboratories in which further studies of piano education methods will be conducted.

The Baldwin Electropiano is a highly refined instrument for teaching, in a flexible, yet simple laboratory system. The laboratory enables the teacher to employ four important means for

A musical education for children is the primary factor influencing the purchase of Baldwin home pianos.

The major market for Baldwin home organs consists of adults who have had some previous musical experience.

instruction — individual teaching, class teaching, ensemble performance, and audio aids. Even pre-recorded and programmed instruction are possible. As a result, teachers can reach a great many more students. And the prospect of bringing musical education to more and more young people bodes well for the future of our musical instrument business.

We are enthusiastic about the prospects for this new product.

Pianos

For the sixth consecutive year, industry piano unit sales exceeded the 200,000 mark. And Baldwin maintained its enviable share of market in spite of competitive pressure from both domestically produced pianos and imports.

The introduction of a new 19-ply pinblock in pianos for both home and school, similar in construction to the highly regarded Baldwin grand piano multi-ply pinblock, gave our customers a meaningful product feature — improved tuning stability.

Baldwin styling was further enhanced by the addition of three new pianos in the latest designs and selection of woods. The Baldwin line of vertical pianos now totals 27 styles. New SD-10 concert grands have been sold to many outstanding auditoriums, public and music schools. Public performances on these stages — especially by the young concert pianists — provide effective demonstrations of Baldwin piano qualities.

As this Report goes to press, a first performance on Baldwin's prototype concert grand version of the Electropiano has just taken place with great success. The impact of the publicity generated by this event on today's youth — tomorrow's buyers — will help project a progressive image of Baldwin products.

Organs

During the year, Baldwin introduced two new home organs to its comprehensive line. The PR-200 "Pro" organ is built for the highly accomplished home organist as well as the professional performer. Its outstanding versatility and design has been a pivotal point for Baldwin organ promotion in general. The "Pro" provides the ultimate . . . an instrument that generates excitement both by its appearance and phenomenal musical qualities. Model 81R gives Baldwin

Chet Atkins has been a spokesman for Gretsch guitars for many years. He is the leading statesman of the Country & Western style which is dominating popular music today. Right: Baldwin Band Instruments join a vast array of musical instruments being marketed by The Fred Gretsch Company to a rapidly expanding school music market.

a sophisticated competitor in the volume middle-priced market.

Success in the home organ market leans heavily on "effects" and innovative sounds. The new Rhythm Percussion, offered on all Baldwin home organs, adds a variety of beats including Brush-Pedal, Bass Drum-Pedal, Cymbal-Pedal, Clave-Pedal, Snare Drum-Accompaniment, Brush-Accompaniment, Wood Block-Accompaniment, and Tom-Tom-Accompaniment.

Also new, but designed for the church organ market, is Baldwin's Model C-600 three manual organ. This solid state entry into the high price range of electronic organs carries forward a Baldwin policy of more than twenty years standing . . . organs intended for contemporary worship service should have their foundation in long established traditions of tonal capacities and standard design and nomenclature. First showings of this impressive new instrument, at the 1968 Trade Show of the National Association of Music Merchants, won wide praise and immediate acceptance.

Other Musical Instruments

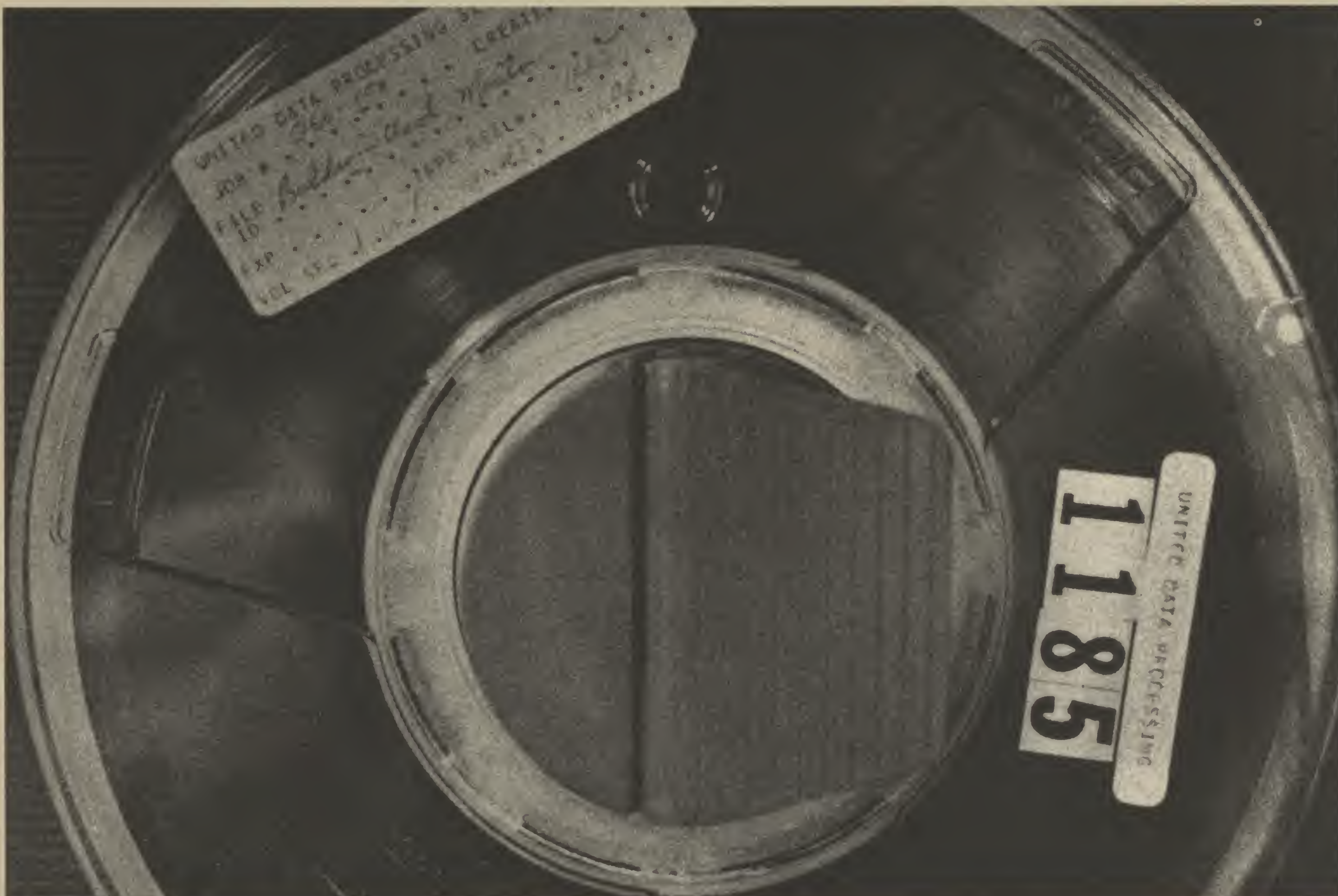
During 1968, non-keyboard instruments marketed by Baldwin were merged with the broad line of our wholly-owned subsidiary, The Fred Gretsch Company, Inc.

The Gretsch Company has been a leading manufacturer and marketer of musical instruments since 1883. Gretsch drums, guitars, amplifiers, banjos and accessories have enjoyed an excellent reputation as evidenced by the number of leading professional musicians playing Gretsch instruments.

In addition, the Company imports and distributes the following well-known musical instruments: La Tosca accordions; Couesnon and I. M. Grassi band instruments; K. Zildjian and Ajaha cymbals. Gretsch also carries a complete line of standard jobber merchandise including: Hamilton stands; Hohner harmonicas; Black Diamond strings; Harmony stringed instruments and amplifiers; Seth Thomas, Franz and Paquet metronomes.

Gretsch now markets Baldwin guitars, amplifiers, combo organs, banjos, the famous Sho-Bud pedal steel guitar, and Baldwin band instruments.

Unification of the Gretsch and Baldwin product lines extends and strengthens The Gretsch Company's potential in this segment of the music market.



The On-Line Computer System serves the Accounts Receivable Section of the Baldwin finance operation and provides management with timely reports for better control.

Finance

Baldwin's program to provide complete financing to both dealer and consumer dates back to the turn of the century. Since then, our financing operations have contributed importantly to earnings as well as strengthening our dealer organization.

As a logical extension of our interest and experience in financing, the Company acquired The Central Bank and Trust Company and Empire Savings, Building and Loan Association, Denver, Colorado, during 1968. Both of these institutions are held by Baldwin-Central, Inc., a wholly-owned one-bank holding company.

We expect that our expanded activities in finance will continue to contribute importantly to the progress of the Company in the years ahead.

Dealer and Consumer Financing

Baldwin's strong position in the keyboard instrument market is owed in part to its dealer and consumer financing facility which is operated as a department of the Company.

By offering liberal consignment plans to dealers—and installment contracts to their customers—we have enabled Baldwin dealers to attract more business through better showroom selectivity and convenient payment terms for the buyer. This two-armed financing service has also enabled us to build and strengthen our dealer organization.

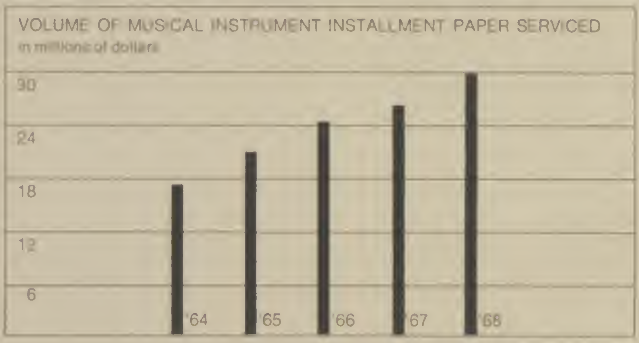
Over the years, our credit experience has been excellent. Earnings on installment paper have increased steadily and losses have been minimal—less than 1% since 1920 and less than ½ of 1% over the past five years.

Installment contracts are taken at competitive rates and include broad damage insurance plus credit life insurance. And because our portfolio includes a substantial amount of short term contracts, and because of the economic circumstances of our customers, the average length of our paper is under 18 months.

Losses are negligible in financing both the dealer and the retail customer because of our ability to reconsign instruments to nearby Baldwin dealers when necessary, the high resale value of our merchandise, and the overall financial strength of our dealers and retail customers.

The volume of musical instrument installment paper serviced by the Company at the year end was $29,646,000, representing an increase of $2,908,000 over the volume held on December 31, 1967. During 1968, the volume of new installment contracts placed on our books amounted to $23,462,000.

Company earnings from the financing of keyboard instruments increased slightly over the previous year, in spite of the continuation of the highest interest costs in our recent history.



The Central Bank and Trust Company, Denver

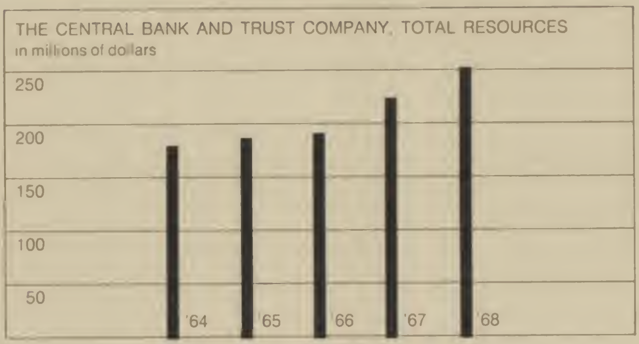
The Central Bank, founded in 1892, is the largest State bank in Colorado and fourth largest bank in Denver. From an $8 million bank in 1943, its assets have grown to $252 million as of December 31, 1968.

A full-service bank with more than 30,000 customers, Central Bank has the largest home and consumer loan department between Chicago and the West Coast. It has the largest number of correspondent banks of any bank in the Rocky Mountain area.

An important consideration in Baldwin's move to Denver, is the recent dynamic growth of the area. From 1952 to 1958, population of the Denver metropolitan area increased by 77%, compared with only 29% for the U. S. as a whole.

By 1980, this area is expected to grow by 35% in population, while the U. S. is expanding by 15%.

Contributing importantly to this picture are the natural scenic beauties of Colorado. They have helped attract new industries and make Denver an exciting city in which to live.



The Central Bank and Trust Company provides adding machines at individual stands as a unique service to customers.

Consolidated Statement of Condition

THE CENTRAL BANK AND TRUST COMPANY AND SUBSIDIARY

ASSETS	Dec. 31, 1968	Dec. 31, 1967
Cash and due from banks	$ 54,135,974	$ 43,171,425
Investment securities—at cost:		
U. S. Government obligations	13,210,548	21,793,325
Obligations of states and political subdivisions	19,620,525	19,268,814
Other securities	557,289	512,289
	33,388,362	41,574,428
Federal funds sold	1,500,000	1,000,000
Loans, net of reserve for losses	155,742,433	131,424,878
Bank premises and equipment—at cost—less depreciation	4,610,912	4,664,744
Other assets	2,382,052	2,227,680
	$251,759,733	$224,063,155
LIABILITIES AND CAPITAL FUNDS		
Demand deposits	$112,026,903	$102,241,737
Time and savings deposits	104,589,467	96,314,070
	216,616,370	198,555,807
Federal funds purchased	2,900,000	—
Mortgages payable	2,201,342	2,326,404
Accrued expenses	1,645,793	1,271,034
Other liabilities	1,914,592	1,796,959
Income collected, not earned	7,614,487	5,259,776
Total liabilities	232,892,584	209,209,980
Capital funds:		
Subordinated capital debentures, 5¼ %	3,000,000	3,000,000
Subordinated capital debenture due stockholder	3,000,000	—
Stockholders' equity:		
Capital stock, par value $10 per share; authorized and issued, 510,000 shares	5,100,000	5,100,000
Surplus	5,100,000	5,100,000
Undivided profits	2,620,614	1,589,191
Reserve for securities	46,535	63,984
Total stockholders' equity	12,867,149	11,853,175
Total capital funds	18,867,149	14,853,175
	$251,759,733	$224,063,155

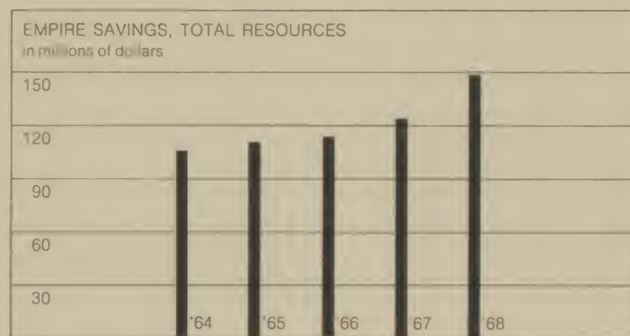
Empire Savings, Building and Loan Association, Denver

Empire Savings was founded in 1931, and as of December 31, 1968, had total assets of $149 million. It is the nation's 180th largest savings and loan association, and the fourth largest in Colorado. The portfolio of mortgages is of extremely high quality due to excellent management.

After 25 years of single-office operation, Empire Savings embarked upon an expansion program in 1956 to meet the savings and loan needs of Denver's population boom. Today Empire has nine attractive, well-located offices serving the metropolitan area.

1968 proved to be a near record year for savings. Over 10,000 new accounts averaging $1,500 each were opened during the year. 1968 also set a new record for mortgage origination. The nine Empire Savings offices made more than 1,300 loans for a total of $35 million.

As of December 31, 1968, Empire had $133 million of first mortgage loans of which 22% were FHA and VA loans. There were no losses on real estate in 1968, and in no year during the past five were losses in excess of 1/10 of 1%.



This Empire Savings branch is one of nine modern offices serving the greater Denver metropolitan area.

Statement of Condition

THE EMPIRE SAVINGS, BUILDING AND LOAN ASSOCIATION

ASSETS	Dec. 31, 1968	Dec. 31, 1967
Cash	$ 3,446,470	$ 1,456,517
U. S. Government obligations—at cost	7,330,301	7,833,386
Certificate of deposit	—	1,242,028
Stock in Federal Home Loan Bank—at cost	1,320,500	1,100,000
Prepayment of Federal Savings and Loan Insurance	994,713	713,803
First mortgage loans on real estate	132,763,164	107,862,905
Real estate owned or in judgment	56,641	70,479
Loans secured by savings accounts	116,268	131,325
Home and branch offices, buildings and equipment at cost—less depreciation	2,477,959	2,323,602
Other assets	183,107	110,074
	$148,689,123	$122,844,119

LIABILITIES AND STOCKHOLDERS' EQUITY		
Savings accounts	$114,276,937	$102,468,818
Loans in process	4,786,550	1,690,798
Advance payments by borrowers	4,394,566	3,957,650
Advances from Federal Home Loan Bank	15,650,000	6,400,000
Other liabilities	189,616	138,651
Total liabilities	139,297,669	114,655,917
Income deferred to future operations	855,165	407,122
Stockholders' equity:		
Permanent stock—par value $1 per share. Authorized 2,000,000 shares; issued 625,000 shares	625,000	625,000
Paid in surplus	19,188	19,188
Undivided profits	599,273	494,883
Undivided profits appropriated for general reserves	7,292,828	6,642,009
Total stockholders' equity	8,536,289	7,781,080
	$148,689,123	$122,844,119

The Instruction Control Center, shown above, is the communications heart of Baldwin's revolutionary piano teaching laboratory. Right: This Siliconix integrated circuit is a complete electronic circuit fabricated on and within a tiny silicon chip.

Electronics

Like other major electronics manufacturers, D. H. Baldwin Company was a participant in America's historic Apollo VIII orbital moon flight.

Baldwin Electronics, Inc., with plant facilities at the Graduate Institute of Technology, University of Arkansas at Little Rock, provided precision optical encoder equipment for the ground launch system of the Apollo Saturn V Rocket. The encoder furnishes precise orientation data for the inertial guidance system to assure satisfactory initial earth orbiting and accurate injection into the translunar orbit.

While this dramatic use of the Baldwin encoder symbolizes the Company's growing competence and involvement in the electronics field, it can also be used in any project requiring accurate, precise measurements. It is used by industry for machine tool control of lathes and milling machines, weighing scale digitizing, commercial card reading, color printing press registration, radio and optical telescope tracking and stream water level gauge readout.

Begun in 1958 as an outgrowth of the Company's development of the electronic organ, sales of Baldwin Electronics, Inc. have climbed from $310,000 to $10,285,000 in 1968.

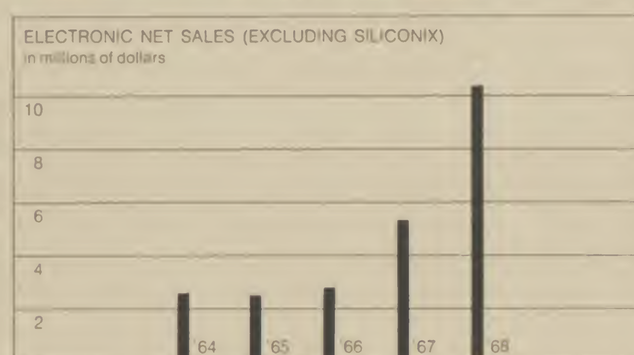
During this period of growth, the electronics division has maintained a complementary relationship with the musical instruments division. Just this year, electronics and music were combined in Baldwin's new Electropiano teaching system.

Baldwin Electronics has recently formed Quantrol Electronics, Inc. in El Paso, Texas, a wholly-owned subsidiary that manufactures photoconductive cells for light sensing applications. These devices find many uses in the control of street lights, camera lens openings, light meters, and card readers.

For the military, Baldwin Electronics develops and produces rocket motors, electronic timers, proximity fusing devices and infrared fusing devices for military weapons. Over seven million 2.75″ rocket motors have been assembled since the first contract was awarded in 1966.

In addition to Baldwin Electronics, the Company's affiliate, Siliconix incorporated, produces specialty semi-conductor components, integrated circuits and semi-conductor production and test equipment. Set up in 1962, Siliconix is actively involved with aircraft, missiles, and the space program.

D. H. Baldwin has found that electronics is a logical and effective extension of its traditional business. The Company will continue to press forward into new electronics areas.



Consolidated Balance Sheet

D. H. BALDWIN COMPANY AND SUBSIDIARIES

ASSETS	Dec. 31, 1968	Dec. 31, 1967
Current assets:		
Cash	$ 3,330,115	$ 5,017,123
Receivables, less allowance for possible losses, $855,717 ($802,379 in 1967)	32,874,472	29,989,647
Inventories (note 2):		
Finished goods, less allowance for possible losses, $150,000 ($300,000 in 1967)	8,011,251	9,991,227
Work in process	5,005,834	5,347,465
Raw materials	4,913,488	7,920,551
Total inventories	17,930,573	23,259,243
Prepaid expenses	924,989	562,105
Total current assets	55,060,149	58,828,118
Investments, advances and other assets (note 1)	13,494,039	2,776,670
Property, plant and equipment, at cost (note 3):		
Land	334,193	334,193
Buildings	4,191,993	4,110,313
Machinery and equipment	5,681,956	5,290,170
Leasehold improvements	910,251	644,605
	11,118,393	10,379,281
Less accumulated depreciation	6,439,012	5,869,445
Net property, plant and equipment	4,679,381	4,509,836
Intangibles, at cost less amortization	693,684	1,042,491
	$73,927,253	$67,157,115

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Dec. 31, 1968	Dec. 31, 1967
Current liabilities:		
Notes payable	$25,271,022	$23,436,908
Long-term debt, current portion	400,000	400,000
Accounts payable	1,994,467	2,059,068
Accrued liabilities	3,008,121	2,641,289
Dealers' commissions	1,350,962	1,429,301
Taxes on income (note 4)	6,696,126	5,972,170
Total current liabilities	38,720,698	35,938,736
Long-term debt, less current portion (note 5)	5,400,000	6,133,333
Long-term subscription payable in 1971	2,058,000	—
Stockholders' equity (notes 5 and 6):		
Capital stock:		
6% cumulative preferred, par value $100 per share. Authorized 2,327 shares; issued—none (374 in 1967)	—	37,400
Cumulative preferred, par value $100 per share. Authorized 60,000 shares; issued—none	—	—
Common, without par value. Authorized 4,000,000 shares; issued 1,161,852 shares at stated value (1,139,486 in 1967)	4,647,408	4,557,944
Earnings capitalized and other additions to capital	1,168,608	601,029
Earnings reinvested in the business	21,995,324	19,948,779
	27,811,340	25,145,152
Less cost of 1,840 common shares in treasury (1,858 in 1967)	62,785	60,106
Net stockholders' equity	27,748,555	25,085,046
	$73,927,253	$67,157,115

Statement of Consolidated Income

AND EARNINGS REINVESTED IN THE BUSINESS, D. H. BALDWIN COMPANY AND SUBSIDIARIES
YEAR ENDED DECEMBER 31, 1968 WITH COMPARATIVE FIGURES FOR 1967

Income:	1968	1967
Net sales	$61,441,654	$58,734,489
Other revenues	3,735,952	3,156,879
	65,177,606	61,891,368
Expenses:		
Cost of products sold	44,238,970	43,042,780
Selling, administrative and general	14,008,597	11,902,647
Depreciation	787,183	728,420
Interest	2,287,999	1,977,532
	61,322,749	57,651,379
Income before Federal income taxes	3,854,857	4,239,989
Federal incomes taxes (note 4)	1,530,000	2,030,000
	2,324,857	2,209,989
Increase in equity of unconsolidated subsidiaries (note 1)	1,118,116	—
Net income for year	3,442,973	2,209,989
Earnings reinvested in the business at beginning of year	19,948,779	19,125,846
	23,391,752	21,335,835
Deduct:		
Cash dividends:		
Preferred stock—$6.00 per share	685	4,176
Common stock—$1.20 per share	1,378,400	1,355,717
Redemption of preferred stock	17,343	27,163
	1,396,428	1,387,056
Earnings reinvested in the business at end of year	$21,995,324	$19,948,779
Net income per share of common stock	$3.00	$1.96

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

D. H. BALDWIN COMPANY AND SUBSIDIARIES, DECEMBER 31, 1968

(1) The Consolidated Financial Statements include the accounts of the Company and all of its wholly-owned subsidiaries, except with respect to a real estate company and a holding company, Baldwin-Central, Inc.

In 1968 the Company formed Baldwin-Central, Inc. which acquired 99% and 84% respectively, of the capital stock of The Central Bank and Trust Company and The Empire Savings, Building and Loan Association, both of Denver, Colorado. The investment in Baldwin-Central, Inc. is carried at cost plus the earnings of Baldwin-Central since the date of acquisition on an equity basis. Investments in a 50% joint venture and other majority owned companies are carried at values which are not in excess of the values of their underlying net assets. The Company's share of the net earnings or losses of unconsolidated companies for 1968 is included in the Statement of Consolidated Income.

(2) In accordance with the Company's consistent policy, inventories are stated at the lower of cost (first-in, first-out) or market (replacement) less an allowance for possible losses with the exception that the valuation of certain work in process includes no manufacturing overhead costs. The omission of this overhead had no material effect on net income.

(3) On a majority of property, plant, and equipment acquired new, the Company's policy is to provide for depreciation according to the sum-of-the-years-digit method. For all other items the straight line method is used.

(4) Deferred income taxes of $5,850,000 ($5,600,000 in 1967) arising from installment sales have been included in current liabilities. The provision for Federal income taxes for 1968 includes a reduction of approximately $500,000 due to tax benefits derived from filing a consolidated Federal income tax return for 1968 and the recognition of prepaid and deferred income taxes in accordance with Accounting Principles Board Opinion #11.

(5) Long-term debt is represented by a 5% note, payable in annual installments of $400,000 through 1977 with a final payment of $2,200,000 due December 20, 1978.

The loan agreement contains certain restrictions on the payment of cash dividends on the Company's common stock, and on the amounts which may be used for the purchase, redemption, or retirement of the Company's capital stock. Approximately $5,438,000 of the earnings reinvested in the business at December 31, 1968 is free of these restrictions.

(6) Under the stock option plans, options may be granted to certain employees to purchase common stock of the Company at a price not less than the market value on the date of granting. All outstanding options at December 31, 1968 were exercisable. Stock options exercised during the year and outstanding at the end of the year were as follows:

	Shares	Option Price Per Share
Options exercised	4,700	$10.12—32.94
Options outstanding	31,350	$10.12—34.00

During 1968, 374 shares of preferred stock were acquired for cash and the issuance of 1,530 common shares held in treasury.

Changes in earnings capitalized and other additions to capital in 1968 were as follows:

Balance at beginning of year	$ 601,029
Excess of the sales price of unissued common stock over the stated value:	
Stock option plan	31,069
Employees stock purchase plan	94,228
Baldwin Profit Sharing Trust	441,180
Gain on sale of common stock held in treasury	4,592
Redemption of preferred stock	(3,490)
Balance at end of year	$1,168,608

(7) The Company's accrued pension costs are being funded. The actual expense for the year was $447,000, which includes amortization of past service costs over the remaining period of seventeen years.

(8) Annual minimum rentals of leased buildings approximates $702,000, with leases expiring at various dates to 1985.

ACCOUNTANT'S REPORT

The Board of Directors and Stockholders
D. H. Baldwin Company:

We have examined the consolidated balance sheet of D. H. Baldwin Company and subsidiaries as of December 31, 1968 and the related Statement of Income and Earnings Reinvested in the Business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying Consolidated Balance Sheet and Statement of Consolidated Income and Earnings Reinvested in the Business present fairly the financial position of D. H. Baldwin Company and subsidiaries at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
March 5, 1969
Cincinnati, Ohio 45202

Consolidated Balance Sheet

BALDWIN-CENTRAL, INC. AND SUBSIDIARIES, DECEMBER 31, 1968

ASSETS		
Cash and due from banks		$ 57,582,544
Investment securities:		
U. S. Government obligations	$20,540,850	
Obligations of states and political subdivisions	19,620,525	
Other securities	557,289	40,718,664
Stock in Federal Home Loan Bank		1,320,500
Federal funds sold		1,500,000
Loans		289,193,865
Excess of cost over book value at acquisition		8,168,461
Property, buildings and equipment		7,088,871
Other assets		3,623,978
Investment in Siliconix incorporated		1,134,117
		$410,331,000
LIABILITIES AND CAPITAL FUNDS		
Deposits		$216,584,342
Association's savings accounts		114,276,937
Notes payable		29,851,342
Due to former stockholders of subsidiary		8,652,270
Federal funds purchased		2,900,000
Loans in process		4,786,551
Other liabilities		8,695,100
Income collected, not earned		8,469,653
Total liabilities		394,216,195
Capital funds:		
Subordinated capital debenture, 5¼ %		3,000,000
Minority interest		1,461,707
Stockholders' equity:		
Capital stock without par value. Authorized 5,000 shares; issued 3,578 shares at stated value	$10,734,000	
Earnings reinvested in the business	809,369	
General reserves	109,729	11,653,098
Total capital funds		16,114,805
		$410,331,000

Accounting and Financial Practices

To more fully inform our shareholders, we have briefly described below certain of the Company's Accounting and Financial Practices which affect the more significant elements of the financial statements.

INSTALLMENT ACCOUNTS: The income from installment accounts receivable is taken into income on the straight line basis rather than in proportion to the size of the loan. This method used by Baldwin understates the profits of the Company during the first years of the contract. No acquisition cost is set up for these accounts and no carrying charge income is recorded until the actual cash is received. All installment accounts receivable are taken from dealers with full recourse and a holdback. Losses in the past 25 years have averaged less than ½ of 1%.

INVENTORIES: In accordance with the Company's consistent policy, inventories are stated at the lower of cost (first-in, first-out), or market less an allowance for possible losses on inventories, with the exception that the valuation of certain work in process includes no manufacturing overhead cost. Gross profit on inventories shipped on consignment to dealers amounts to approximately $3,000,000. This profit will not be recorded on the books of the Company until a check or installment contract is received from the dealer. Interest charges on consigned merchandise are not recorded until settlement is made. Charges earned but not accrued amount to approximately $630,000.

SILICONIX: Siliconix stock was acquired at a cost of $889,000. Current market value of the investment is approximately $14,000,000.

PROPERTY AND DEPRECIATION: Items capitalized as part of plant and equipment represent land, buildings, equipment, and significant betterments to existing plant and equipment.

INTANGIBLE ASSETS: During 1968 the Company expensed $348,000 of intangible assets acquired through prior years' acquisitions.

FEDERAL TAXES: Federal taxes payable as of December 31, 1968, amounted to $6,700,000 which for the most part are related to the gross profit margin arising from installment sales. These taxes are not due and payable until the payments are received from the customer. All taxes are accrued as current liabilities in the year of the sale regardless of the fact that they will not be paid in the foreseeable future. As long as the Company remains on the installment method under current laws with current margins, over 80% of this current liability will not have to be paid. In the unlikely event that the accounts prove to be uncollectible, this liability would be wiped out and would not be a claim against the Company.

RESEARCH AND DEVELOPMENT: Cost in connection with research and development is expensed as incurred.

DIRECTORS

Robert E. Fanning
Retired-Former Manager
Chicago Division
Baldwin Piano & Organ Company

William M. Hickey
President & Director
The United Corporation
New York, New York

John F. Jordan
Vice President

Lawrence H. Kyte
Partner, Law Firm of
Kyte, Conlan, Wulsin & Vogeler
Cincinnati, Ohio

William A. Mitchell
Retired-Former Chairman of the Board
The Central Trust Company
Cincinnati, Ohio

James M. E. Mixter
Vice President

A. J. Schoenberger
Retired-Former Executive Vice President
Baldwin Piano & Organ Company

Morley P. Thompson
Vice President

Eugene Wulsin
President
The Baldwin Piano Company
(Canada) Limited

Lucien Wulsin
President

Fred Gretsch, Jr.
President & Director
The Fred Gretsch Company, Inc.
Brooklyn, New York

Philip Wyman
Retired-Director Emeritus
Baldwin Piano & Organ Company

OFFICERS

Lucien Wulsin, President
John F. Jordan, Vice President
James M. E. Mixter, Vice President
Morley P. Thompson, Vice President
Eugene Wulsin, Vice President
R. F. Coghill, Secretary
Charles G. Lindeman, Controller
R. S. Harrison, Treasurer
L. H. Ellis, Assistant Secretary
Timothy P. Hartman, Assistant Controller

GENERAL OFFICES

Cincinnati, Ohio

SUBSIDIARIES

Baldwin Piano & Organ Company
The Baldwin Piano Company (Canada) Limited
Baldwin Electronics, Inc.
  Quantrol Electronics, Inc.
Baldwin Export Corporation
C. Bechstein Pianofortefabrik AG.
The Baldwin Company
Canyon Press, Inc.
The Fred Gretsch Company, Inc.
Baldwin-Central, Inc.
  The Central Bank and Trust Company
  Empire Savings, Building and Loan Association

MANUFACTURING PLANTS

Arkansas: Booneville, Camden, Conway,
DeQueen, Fayetteville, Little Rock
Canada: Toronto
England: London
Mississippi: Greenwood
Ohio: Cincinnati
West Germany: West Berlin, Karlsruhe

AFFILIATE

Siliconix incorporated

DEALERS OR COMPANY-OWNED SALES OUTLETS

In all principal cities in the
United States, and abroad

TRANSFER AGENTS AND REGISTRARS

The Central Trust Company, Cincinnati, Ohio
Morgan Guaranty Trust Company of New York

D.H.BALDWIN COMPANY, CINCINNATI, OHIO 45202, PHONE (513) 621-4300